

THE PRESIDENT'S EXPORT COUNCIL
WASHINGTON, D.C. 20230

September 19, 2013

President of the United States of America
The White House
Washington, DC 20500

Dear Mr. President,

As defined in the National Export Initiative, a critical role for the Government is ensuring that U.S. companies compete on a level playing field in the international arena. This is particularly important for public sector procurement as government spending accounts for approximately 18 percent of world GDP. Although U.S.-manufactured goods and services often offer superior quality and value to buyers, least-cost procurement policies, which are widely used throughout emerging market economies, can be a severe impediment to U.S. exports and investment.

As the practice implies, least-cost analysis evaluates bids solely on initial purchase price, awarding the lowest cost bidder. The least-cost method is used heavily due to the lack of professional training or capacity to execute more sophisticated procurement mechanisms, and because it provides a defensible position against accusations of corruption or fraud in award decisions.

Unfortunately, the least-cost method has negative effects both for international competition and for local economies. It undercuts the ability of firms that offer high-quality goods or services to compete for contracts and also leads emerging economies to acquire low-quality products that may not perform as required or expected.

Least-cost procurement can have detrimental impacts on the development of critical infrastructure overseas. While this policy is intended to safeguard the interests of low- to middle-income countries, it often has the opposite effect; only initial purchase cost is considered, to the exclusion of maintenance and operating expenses, reliability, productivity, safety, or the need for service contracts and guarantees. Without considering these factors, foreign governments may award bids and procure low quality goods with relatively short useful lives or award bids to low-cost upfront bidders who have underrepresented the high ongoing operating costs.

Although the high-quality, high-value equipment and comprehensive maintenance agreements provided by U.S. businesses sometimes come at a higher initial investment, they can offer lower overall costs when considering the entire useful life of the technology or equipment. In sum, U.S. companies recognize that least-cost procurement policies create a discouraging scenario for emerging market, government bid opportunities.

The U.S. Trade and Development Agency (USTDA) is responding to this challenge by launching the *Global Procurement Initiative: Understanding Best Value* in order to educate public procurement officials in emerging markets about sustainable procurement practices and policies

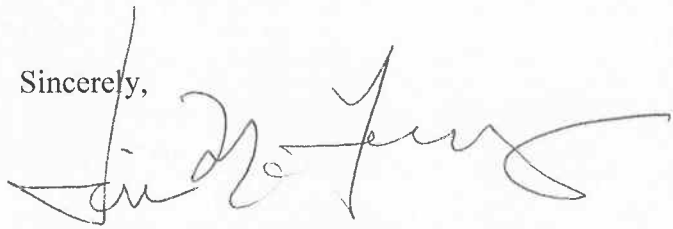
that integrate life cycle cost analysis and best value determination. Adopting a more value-oriented model of procurement would not only favor U.S. products and services, it would benefit the host country by enabling them to source best-value solutions for their needs. The Initiative is being developed in consultation with U.S. businesses and in partnership with The George Washington University Law School's Government Procurement Law Program. USTDA will also seek opportunities wherever possible for collaboration with the World Bank and the regional development banks for the planning and execution of this comprehensive Initiative, given the banks' role as leading financiers of large infrastructure projects in low- to middle-income countries.

USTDA will use various tools in support of this initiative, including training, workshops and technical assistance. Activities will address procurement systems at a countrywide level, or by specific industry sector, government entity, or project and will be tailored to procurement decision-makers in high-technology sectors such as energy, transportation, and telecommunications. Officials attending training under the Initiative will include local and national government officials, procurement managers at state-owned enterprises, and important national or regional utility boards. The program will focus on policy-level changes that will open the door for further technical training on the implementation of sustainable procurement.

The PEC will work closely with USTDA and the U.S. business community to develop targeted activities under this Initiative. We recommend that the Administration highlight the importance of this Initiative among TPCC agencies and U.S. Embassies. Given the global scope of this Initiative and the need for sustained engagement with foreign counterparts in order to achieve results, we also recommend that the Administration direct additional resources to implement this Initiative.

When government procurement agencies and officers are able to fairly and transparently evaluate "best value" in tenders, government contracts in emerging markets will offer revitalized business and job opportunities for U.S. companies that offer "best value" solutions.¹

Sincerely,

A handwritten signature in dark ink, appearing to read "Jim McNerney", written over a horizontal line.

Jim McNerney

¹ Please note this letter was prepared by the private sector appointed members of the PEC.